Dear fellow shareholders,

The Tarkio Fund (the "Fund") was off to a difficult start during the last few months of 2011; however, our first full calendar year in 2012 returned 21.17% vs. 16% for the S&P 500 ® Index (S&P 500 TR). As you all know, the positive returns by the Fund and the Index were achieved in a bumpy market characterized by wide, manic mood swings by our friend Mr. Market[1] (see attached).

The stock market as represented by the S&P 500 TR provided investors nearly zero returns for eleven years (1997-2009)[2]. We believe this experience left equities extremely under-owned and the majority of the investment community fearful of stocks as an asset class. As such, we believe the positive returns we are now experiencing are the early stages of a long-term process to correct this imbalance as investors once again become more comfortable viewing equities as a viable asset class. As a result, we think the stock market could provide us with a gentle tailwind for many years to come as equities gradually become more fairly represented as a percentage of investors' portfolios. That said, fear is a powerful emotion, and we believe it is seared into investor's memories. Hence, we also believe prices will, more than likely, also continue for years to be subjected to short-term panic declines similar to what we experienced last year as the fears that are deeply imbedded in the investor psyche will periodically resurface to overreact to unfavorable short-term political/economic news as it inevitably unfolds.

In our inaugural letter, we discussed the concept that to be a successful investor, it is essential to understand what you can know and equally important to understand what it is you cannot know. Our belief is that in buying common stocks there are only two variables that one can base decisions upon. Those two variables are:

-The Quality of the Company
-The Valuation of the Stock

Also, in our opinion, there are two seminal names in investing committed to this discipline, Ben Graham and Philip Fisher. That said, Graham and Fisher viewed these two variables from polar opposite directions. Graham approached these two important variables from a quantitative perspective seeking to purchase reasonable companies at very low valuations. In the Graham model the margin of safety is provided by the low price. Fisher on the other hand approached the same two variables from a qualitative prospective seeking to purchase what he considered outstanding companies at reasonable prices. The margin of safety in the Fisher model is provided by the quality of the company not necessarily the purchase price.

We believe both styles will eventually provide superior long term returns if executed properly. In fact, we have the greatest admiration for investors, like Scott Barbee at the Aegis Value Fund, who have compiled enviable long term performance track records by adhering to these disciplines. My career, however, has been shaped by the work of Phil Fisher. After reading his signature book, *Common Stocks and Uncommon Profits*, when I was in my early thirties I felt I had found my calling as an investor. In fact, I was so moved by the experience that I did something I had never done before or since, and that was to write him a fan letter.

[1] Graham, Benjamin. The Intelligent Investor
[2] S&P 500 Total Return Index – 5/5/1997 = 1098 and 3/9/2009 = 1095

218 E. Front Street, Ste 205, Missoula Montana 59802 PO Box 9168, Missoula Montana 59807
Phone: (406) 541-0130 Fax: (406) 541-0133 Email: info@frontstreetcap.com

Phil (who was an octogenarian at the time) was generous enough to respond to my letter. As you could imagine, that experience lead me to become wholly committed to attempting to identify outstanding companies according to the Fisher criteria and purchasing their underlying stocks at a price that represents a reasonable valuation for a long term investor.

Fisher's concept as to why one company would have an advantage over another company was that they were managed in a way that would release the most human potential from employees. As a result, I have studied and researched management styles and corporate cultures for over twenty-five years. As we speak our criteria is a culmination of: Fisher's work as the foundation, then adding some of W. Edwards Deming's and other published management thinkers' ideas to the mix, along with what we have learned from the leaders of companies I have researched over time, such as: Howard Shultz at Starbucks, John Mackey at Whole Foods, the former team of David Black, Chuck Diller, Ray Treml and Rao Bollimpalli at JLG Industries, Dennis Bakke at AES, Al West at SEI, Harry Birkenruth formerly of The Rogers Corp., Max Dupree founder of Herman Miller Corp., Dr. T. at National Instruments, Dr. Bob at Cognex, Jim Sinegal at Costco, Doug Conant formally from Campbell Soup and Warren Buffett and Charlie Munger at Berkshire Hathaway to name a few. Over the years we have attempted to break this work down to understandable terms that we can benchmark companies against. The following bullet points are a result of that effort:

-Integrity
-Long-term Focus
-Teamwork
-Employee Empowerment
-Disciplined Capital Allocation

We do our best to identify companies to purchase in your portfolio with these characteristics; however, in the real world nothing is perfect. As a result, some companies may be stronger in one area and weaker in another. Our conclusion, however, is that on balance the company is tight enough to the stated criteria to warrant financial commitment. We have found that over time the best way to purchase these companies at the most attractive prices/valuations is to average the price in over time attempting to use Mr. Market's manic mood swings to our advantage whenever possible.

As we mentioned previously, we understand and have great admiration for the Graham model of investing. As such, once in a while there is a stock that we run across in our research that appears to be so undervalued that even though the company is lacking with regard to the above criteria, we will purchase it for the Fund. We view these purchases as the exception and also view our investment in them akin to renting vs. owning.

We hope to make these letters an ongoing dialogue to inform you of our investment and thought process so as to give you the information necessary to insure that what you are seeking in an investment manager is aligned with who we are. As Warren Buffett had once indicated, you do not want to sell tickets to a rock concert only to have a ballet appear on stage on performance night.[3]

We appreciate the confidence you have shown in us by investing your hard earned capital in our Fund. We are working daily to live up to your expectations. Please call (406) 541-0130 if you have any questions.

Sincerely,

Russ Piazza

Russ Piazza

---

[3] "Warren Buffett Talks Business," the University of North Carolina Center for Public Television, Chapel Hill, 1995

Please consider the investment objectives, risks and charges and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund. You may obtain a copy of the prospectus by calling (866) 738-3629. Please read the prospectus carefully before investing.

Shares of the Fund are offered through the Fund's distributor, Pinnacle Investments, LLC, a member of FINRA. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

The Fund may be offered only to persons in the United States and by way of a prospectus. This letter should not be considered a solicitation or offering of any product or service to investors residing outside of the United States.

"Mr. Market"[4]

Long ago, Ben Graham described the mental attitude toward market fluctuations that are most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence.

[4] *Excerpts from the 1987 Berkshire Hathaway Inc. Annual Report*